



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

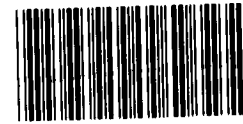
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RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-204494

NOVEMBER 10, 1982

The Honorable Charles M. Butler, III
Chairman, Federal Energy Regulatory
Commission



119907

Dear Mr. Butler:

Subject: The Termination of the Common
Support Agreement (GAO/RCED-83-28)

We have reviewed the efforts of the Federal Energy Regulatory Commission (FERC) to terminate the Common Support Agreement between FERC and the Department of Energy (DOE). This termination would transfer from DOE to FERC the responsibility for performing certain administrative functions in support of FERC. We found that FERC's estimates of the resources needed to perform the support functions were not based on a complete evaluation, and that FERC is not yet prepared for an orderly, economical transfer of the administrative support functions from DOE. We, therefore, believe that FERC needs to make complete evaluations of the resources it needs to assume responsibility for the functions and to prepare a transition plan for making the transfer.

We undertook this review as part of our basic legislative responsibilities because the House Appropriations Committee, in its report accompanying the bill for the fiscal year 1982 appropriations, directed DOE and FERC to work out the support problems and report the changes made in the Common Support Agreement.

Our objectives were to determine whether

- reasonable progress was being made in the negotiations between FERC and DOE to terminate the Common Support Agreement and
- resource estimates in the fiscal year 1983 budget for the administrative functions are adequately supported.

Our review was based on interviews with FERC and DOE officials involved in negotiating the termination of the Common Support Agreement and making the transfer of functions. We also examined

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the correspondence between the two agencies establishing the need for terminating the agreement and various proposals to facilitate that effort. In addition, we analyzed the documentation each agency had for its resources estimates and negotiating position. This review was performed in accordance with generally accepted government audit standards.

BACKGROUND AND STATUS OF NEGOTIATIONS

On February 2, 1978, DOE and FERC entered into a Common Support Agreement which delineated the support functions for FERC to be performed by DOE and FERC. For example, under the agreement DOE provides support to FERC in functional areas such as payroll, recruiting and personnel, administration, and property management. FERC transferred 113 support positions to DOE in 1977 and 13 in 1978, a total of 126 positions. However, in 1979, 28 positions and the responsibility for management of a printing plant were returned to FERC. This reduced the net transferred positions to 98.

Shortly after the Common Support Agreement was entered into, problems of varying magnitude began to develop. In a letter dated April 27, 1981, to the Secretary of Energy, FERC's acting Chairwoman stated that FERC was suffering undue stress and delay in many of the support functions, and that these problems had an adverse impact on the efficiency of FERC's program operations and on the morale of its employees.

DOE and FERC subsequently attempted, but were unable to satisfactorily resolve the problems. Consequently, on July 17, 1981, the newly appointed Chairman, FERC, and the Secretary of Energy agreed to work toward terminating the Common Support Agreement and to transfer back to FERC the responsibility for performing the support services being performed by DOE. Negotiations for terminating the agreement and transferring the responsibility back to FERC during fiscal year 1982 reached an impasse.

The impasse was caused by FERC's and DOE's inability to agree on the transition costs which would have been required in fiscal year 1982 or which agency would be responsible for funding the support if the fiscal year 1983 appropriations act was not passed, thus requiring a continuing resolution at the beginning of fiscal year 1983. DOE's and FERC's fiscal year 1983 budget requests reflected the proposed transfer of both the performance and financing responsibilities, but the continuing resolution does not do this because it is based on the fiscal year 1982 appropriations. DOE told us that the source of funds for FERC's administrative support is unclear since DOE has not budgeted for FERC's support in fiscal year 1983.

DOE's Director of Management Systems Analysis stated that the impasse over funding sources had also resulted in a temporary delay in completing a transition agreement which defines the approach and time schedule in which the functions will be transferred. However, despite this delay, dialogue and consultation continue between DOE and FERC staffs.

RESOURCE ESTIMATES IN FISCAL
YEAR 1983 BUDGET ARE NOT BASED
ON COMPLETE EVALUATIONS

FERC's fiscal year 1983 budget request included 120 staff years and \$4.8 million for the administrative support functions to be transferred from DOE. The Office of Management and Budget (OMB) developed these resource estimates by averaging two widely varying estimates made by FERC and DOE, both of which were based on incomplete data and analyses. Under the circumstances, OMB's action was reasonable. However, the Congress has no assurance that the 120 staff years and \$4.8 million in FERC's budget request are sufficient to meet FERC's needs when the administrative support functions are transferred from DOE.

OMB averaged FERC and DOE estimates
for fiscal year 1983 budget request
purposes

The estimates for administrative support contained in FERC's fiscal year 1983 budget request was an outgrowth of the negotiations between FERC and DOE to terminate the Common Support Agreement. FERC estimated that DOE needed to transfer 139 positions and about \$6 million for fiscal year 1982. The \$6 million would have covered the costs for salaries and benefits, rent and building preparation, furniture and equipment, system support, travel, training, supplies and materials, health services, and library and other administrative support. However, DOE was willing to transfer only 98 positions and \$2.9 million for salaries because DOE believed that its fiscal year 1982 budget (which funded the administrative support it was providing FERC) could not sustain the \$6-million transfer FERC requested.

DOE's offer was unacceptable to FERC and, consequently, FERC and DOE continued to negotiate for resources to be transferred in fiscal year 1982. Neither agency had made an adequate evaluation of the full cost to FERC of assuming the administrative support functions by the time that FERC had to submit its fiscal year 1983 budget request to OMB. Thus, OMB was confronted with the need to decide what provision for the administrative support would be included in FERC's budget request, without the benefit of an adequate evaluation of those resource needs.

Therefore, OMB directed that FERC include \$4.8 million and 120 staff years in its fiscal year 1983 budget request which was an average of the FERC and DOE estimates. Under the circumstances, we believe such action was reasonable. However, as discussed in the two following subsections, FERC's estimates were based on incomplete information and analyses, and DOE's estimate did not cover the full cost to FERC of assuming the administrative support functions.

FERC's estimates of resources
needed were incomplete

When estimating the 139 positions needed to perform the support functions, FERC considered several factors, but did not match staff years of effort with administrative support functions to be performed. FERC considered (1) increases in its operational personnel, (2) administrative support staff levels of other regulatory agencies, and (3) FERC's current in-house administrative staff. FERC's Deputy Executive Director told us that other factors were also used, but he could not document their use. FERC's use of the three partially documented factors is briefly discussed below.

The first factor FERC considered in estimating staff resources was the number of operational personnel in relationship to the number of support positions it transferred to DOE in October 1977 to provide administrative services. FERC assumed that the growth in its operational personnel between October 1977 and October 1981 required a proportional increase in the support staff serving FERC at DOE. Under this assumption, FERC calculated that the support staff should have increased by 56 percent, thereby increasing the total positions at DOE from 98 to 153. FERC provided no support for its assumption that there is such a proportional relationship.

The second factor FERC considered was the administrative profile of other regulatory agencies. FERC obtained information from other independent regulatory agencies on the number of positions they were using to carry out their administrative support functions, the total staff levels, and the number of field offices. FERC concluded that the agencies' support staff levels ranged from 151 to 244 positions. Our examination of the information from the agencies, however, showed that the support levels ranged from 81 to 375 positions. Of greater importance is that the staff did not indicate how the administrative support level of the other agencies related to the level needed by FERC.

FERC's Deputy Executive Director told us that he was responsible for determining FERC's resource needs, and after considering the above factors as well as the 128 FERC support staff already on board, he determined that FERC would need 139 more positions to

handle the support functions transferred from DOE. As previously discussed, however, the analytical support for those additional positions was incomplete and did not provide an accurate assessment of the resources needed to perform the support functions to be transferred.

FERC should eventually have an adequate estimate of a portion of the resources it needs as a byproduct of a contract with Technassociates, Inc. In September 1981, FERC entered into a three-part contract with Technassociates, Inc., to establish an accounting, budgeting, financial management and reporting system. Part I (which has been completed) called for a detailed step-by-step plan of actions necessary for FERC to begin financial operations on its first day of independent administrative operations. Part II (completed in Mar. 1982) required the identification of areas that would need enhancement in the short term to improve the accounting and budget operations. Part III (scheduled to be completed in Sept. 1982) would provide FERC with a plan outlining steps necessary for the development of a long-range integrated accounting, budgeting, financial management and reporting system. In addition to planning the development of the system, the contractor will also determine the number of positions needed to operate it.

After we pointed out to FERC's Executive Director that the contract with Technassociates did not cover some support areas, such as personnel, property management, security, and procurement, FERC amended the contract with Technassociates, on May 20, 1982, to include:

- A plan delineating the space requirements for FERC when it assumes the administrative and financial functions from DOE. This plan was completed on June 30, 1982.
- A report recommending interim property management and supply policy and procedures. This report was completed on August 31, 1982.
- A written plan and physical inventory of all furniture and equipment transferred from DOE. This was due on September 30, 1982.
- A plan for assumption of the total procurement function, and identification of policies and procedures (including those for operations and reporting) necessary to establish FERC's procurement functions. This plan was scheduled to be completed on September 30, 1982.

FERC did not, however, provide for a study of its personnel and security systems, either through the contract amendments or otherwise. FERC's Executive Director told us that FERC would adopt DOE's personnel procedures and directives, and revise them later, if necessary. However, this explanation does not address other personnel matters, such as the number of personnel staff needed. He said the security problems would be resolved through a proposed move which would consolidate FERC headquarters in one location.

DOE estimated only the support it provided FERC

DOE, in support of its negotiations with FERC about the transfer of functions, made an estimate that it spent 54 staff years providing support to FERC. DOE stated that its analysis was intentionally limited to existing DOE resources and costs supporting FERC, while FERC's estimates of its support requirements must be based on how it wishes to establish and operate its independent support capability.

Although DOE's analysis was sufficient to determine the staff years of effort used supporting FERC, it did not consider all the staff years of effort FERC would need to fully operate its own administrative support system. This is because the staff providing administrative support for FERC was also serving other DOE units. In particular, the managerial contributions of the DOE staff were not translated into what would be needed for FERC to provide similar management. For example, DOE's analysis did not take into account that DOE's controller would no longer be available to FERC and that FERC would need its own controller to manage and operate its accounting and financial system. Notwithstanding the 54-staff year estimate, however, DOE, during the give-and-take of negotiations with FERC, agreed to transfer back to FERC the 98 positions which remained from the original FERC transfer to DOE.

A TRANSITION PLAN IS NEEDED

Regardless of when the transfer is made, FERC needs to develop a transition plan for the orderly, economical transfer of the support functions from DOE. DOE has prepared a plan for disengaging operations, but it does not cover the preparations that FERC must make. FERC needs a transition plan to assure that unnecessary costs are not incurred, vital information is not lost, and that no significant problems are caused by the transfer. The Technassociates work, while useful, does not constitute a transition plan (see p. 8).

After the resources needed have been properly identified, FERC must arrange to acquire them. For example, after an accounting system is adopted, FERC may need to hire and train people for new duties and acquire facilities, such as automatic data processing hardware. These actions must be taken in advance of assuming the responsibility for performing the functions.

In addition, the timing of the transfer of the various functions needs to be coordinated between FERC and DOE. Just as FERC should not have its newly acquired resources idle for long before they are required for the transferred responsibilities, DOE must arrange for the timely release of its resources that will no longer be needed after the transfers have occurred.

To avoid loss of vital information and problems when the responsibilities are being transferred, FERC and DOE, in some cases, should conduct dual operations until FERC's systems are found to be operating properly. Otherwise, for example, there is the possibility that employees would not be paid properly or timely, that amounts due the Government would not be billed and collected, or that accounts payable would not be properly or timely paid.

DOE's Director of Management Systems Analysis told us in June 1982 that DOE had prepared a transition plan for disengaging operations under the Common Support Agreement. The only concern DOE had was whether or not FERC would be ready to assume the functions. DOE's plan did not address the preparations FERC must make to assume the functions.

FERC AND DOE COMMENTS

DOE provided its comments by letter dated August 30, 1982. (See enc. I.) DOE stated that the draft report accurately summarized the sequence of events surrounding the efforts by DOE and FERC to terminate the Common Support Agreement and to transfer back to FERC the responsibility for performing the support services now being performed by DOE. DOE also requested that we clarify three points, which we have done.

The Chairman, FERC, provided comments in a letter dated August 4, 1982. (See enc. II.) The Chairman questioned the accuracy and timeliness of the information in the draft report. Our analyses of his comments are presented in the following paragraphs.

Negotiations and funding

The Chairman acknowledged that there had been disagreements between DOE and FERC but stated that the negotiations between DOE and FERC were successful in that he and the Secretary of Energy

are satisfied with the resolution of those disagreements. Also, he stated that cooperative efforts to work out details of the transition had not been halted.

The negotiations between DOE and FERC did become stalemated, although (as the Chairman pointed out and DOE's Director of Management Systems Analysis confirmed) discussions and exchange of information continued at a lower staff level. For example, Technassociates was engaged in information gathering activities at DOE, but this did not constitute negotiations toward working out details of the transition.

DOE's Director of Management Systems Analysis told us that our draft report had sparked the resumption of negotiations. He also noted that FERC is no longer insisting on the resolution of the funding problem before working out an agreement on a transition plan.

The financing of the support functions will have to come through the fiscal year 1983 appropriations, which the Chairman correctly points out has not been passed by the Congress. Therefore, until the appropriations are made, the major portion of the transfer cannot be accomplished. DOE's Director of Management Systems Analysis advised us that there are some responsibilities that can be transferred without funds, and that DOE and FERC are working on transferring these responsibilities before the fiscal year 1983 appropriations are passed. We agree with the Chairman that funding under a continuing resolution will not provide FERC with the funds necessary to assume the administrative support functions.

Transition plan

In his comments, the Chairman said,

"Although DOE and FERC agree on the resources to be transferred to FERC, there remains a significant problem. That is, although the substance of a termination agreement has been agreed upon, termination cannot be implemented because neither DOE nor FERC has funding for FY 1982 sufficient for termination."

This implies that the only thing impeding the transfer--whether in fiscal years 1982 or 1983--is the lack of funding. However, FERC still needs to determine the resources it needs and to complete a transition plan.

Also, the "termination agreement" is not a transition plan. It is actually a draft transition agreement between DOE and FERC which simply outlines a general procedure for FERC and DOE to

follow in developing a transition plan. The planning documents prepared by Technassociates show evidence of some transition planning efforts, but much more needs to be done.

As discussed earlier in this letter, a transition plan would identify the resources needed, the detailed arrangements for acquiring the resources, the proper timing of the transfer of the various functions, and provision for dual operations until FERC can sustain itself. The documents prepared by Technassociates do not provide the necessary details for such a transition plan.

Our examination of the documents prepared by Technassociates under the contract with FERC disclosed the following information. The "Establishment and Conversion Plan" is described by Technassociates as a document prepared to identify the activities necessary for FERC to establish accounting, budgeting, and financial planning operations as an independent agency. The document itself reveals its limitations through statements describing parts of it as "a preliminary evaluation of workload and the staffing necessary in order to achieve an effective operating capability" and "a summary to highlight some of the more important tasks that should be accomplished * * *." The "Post Operation and Improvement Plan" is described by Technassociates as covering activities after the transfer of responsibilities has been made. It "recommends actions," "identifies" areas needing "attention," "recommends time tables," and provides a "reference document which is intended to assist FERC in planning workflow and assigning duties." However, it does not present a sufficiently detailed plan. The "Analysis of FERC Administrative Staffing" is characterized by Technassociates as "our analysis and comments of your staff's draft of a proposed organizational structure for FERC administrative functions." The executive summary makes it clear that Technassociates has not made an analysis of FERC's staffing needs, but rather is commenting on a draft proposal of how to organize the administrative personnel already in FERC and the positions that would have been received from DOE if a fiscal year 1982 transfer had been made. Therefore, in our view, while the planning documents prepared by Technassociates for FERC represent a good first step in that they provide information needed in developing a transition plan, they are not, in and of themselves, a transition plan.

Also, there are many other factors which must be dealt with in making the transition. The procedure for transferring people still has to be worked out. Moreover, DOE will have to establish Reduction in Force procedures. The DOE's Director of Management Systems Analysis estimated that it would take at least 30 days for DOE and FERC to prepare a detailed transition plan.

CONCLUSIONS AND RECOMMENDATIONS

FERC still has to make a lot of preparations for an orderly, economical transfer of the administrative support functions from DOE. These preparations should proceed efficiently, effectively, and rapidly if the recent cooperative effort between DOE and FERC continues. Accordingly, we recommend that the Chairman, Federal Energy Regulatory Commission, in cooperation with the Secretary of Energy, provide for the termination of the Common Support Agreement and the orderly, economical transfer of support functions by

- making complete evaluations of the resources FERC needs to assume responsibility for the functions to be transferred, including completion of the evaluations already arranged for and
- preparing a transition plan for the transfer, including
 - (1) a schedule for acquisition of resources (after they have been identified through the evaluations recommended above) which would provide for installation, testing, and training;
 - (2) a schedule for assuming responsibilities from DOE as FERC completes its preparations to receive them; and
 - (3) provision for DOE system backup to avoid loss of vital information and problems until the FERC systems are operating satisfactorily.


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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Secretary of Energy; the Director, Office of Management and Budget; the Senate Committee on Governmental Affairs; the House Committee on Government Operations; and the House and Senate Committees on Appropriations.

We appreciate the courtesy and cooperation extended to our staff during the review.

Sincerely yours,

for 
J. Dexter Peach
Director

Enclosures - 2



Department of Energy
Washington, D.C. 20585

AUG 3 0 1982

Mr. J. Dexter Peach
Energy and Minerals Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report to the Chairman of the Federal Energy Regulatory Commission entitled "The Termination of the Common Support Agreement." The draft report accurately summarizes the sequence of events surrounding the efforts by DOE and the Federal Energy Regulatory Commission (FERC) to terminate the Common Support Agreement and to transfer back to FERC the responsibility for performing the support services now being performed by DOE. However, three points need to be clarified. First, the funding issue (page 2) is broader than the amount of funds involved. Because of the uncertainties surrounding the outcome of the fiscal year 1983 budget, it is unclear where funds for FERC administrative support will come from. Since the proposed fiscal year 1983 budget is predicated on FERC operating independently, DOE has not budgeted for FERC support in that year.

Second, while the funding issue continues to be troublesome, it has not resulted in a complete halt in cooperative actions relating to the details for transfer of functions (page 2). The impasse over funding sources has resulted in a temporary delay in completing a Transition Agreement which defines the approach and time schedule in which the functions will be transferred. Despite this delay, dialogue and consultation continue to take place between DOE and FERC staffs. For example, the Office of Washington Financial Services (OWFS) which provides numerous services to FERC including payroll, finance, accounting and travel, has been providing information to FERC and their contractor Technassociates, Inc., whose services FERC has obtained to assist them in preparing for receipt of these support functions from DOE. In addition, on July 1, 1982, OWFS prepared and sent to FERC a detailed plan and schedule for ensuring an orderly transfer of functions. This plan was intended to lay the groundwork for the transfer, but as the GAO report correctly points out, it does not include the necessary steps FERC must perform to receive the functions. This area is covered in a study report by Technassociates, Inc., a copy of which has recently been received by DOE for comment.

Third, with respect to the findings (page 2-9) that neither agency has made an adequate evaluation of the resources required to support FERC's administrative

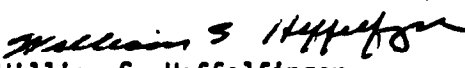
See GAO note, page 13.

2

activities, it should be clarified that DOE's analysis was intentionally limited to existing DOE resources and costs supporting FERC. FERC's support requirements must be based on how they wish to establish and operate their independent support capability.

DOE appreciates the opportunity to comment on this draft report and trusts that GAO will consider the comments in preparing the final report.

Sincerely,


William S. Heffelfinger
Assistant Secretary
Management and Administration

GAO note: Page references in this enclosure which referred to the draft report were changed to reflect their position in this final report.

FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D. C. 20426

OFFICE OF THE CHAIRMAN

AUG 4 1982

Mr. J. Dexter Peach
Director
Energy and Minerals Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

I appreciate the opportunity to comment on GAO's draft report regarding the prospective termination of FERC's Common Support Agreement with DOE. My comments are important because much that is said in the draft report is either out-of-date or just plain wrong. I believe, and am sure you will agree, that it is in the best interests of both FERC and GAO to assure a factually accurate report.

Two consistent themes throughout the report are the following: (1) Negotiations for the transfer of responsibilities have become stalemated because of disagreement over the resources to be transferred from DOE to FERC under the termination agreements. (2) FERC has not prepared for an orderly economical transfer of the functions, based on a sound evaluation of the resources required to perform these functions. I will respond to each of these concerns in order.

First, it is true that in the early stages of negotiations with DOE to terminate, there were substantial disagreements over the resources to be transferred from DOE to FERC. However, such disagreements are to be expected and, indeed, were the reason for the negotiations in the first place. I am satisfied that the negotiations have been successful in the sense that both the Secretary and I are satisfied with the resolution for those disagreements.

Although DOE and FERC agree on the resources to be transferred to FERC, there remains a significant problem. That is, although the substance of a termination agreement has been agreed upon, the termination cannot be implemented because neither DOE nor FERC has funding for FY 1982 sufficient for termination. Furthermore, the likelihood of an extended continuing resolution for FY 1983 significantly reduces the chances for the speedy termination of the Common

Mr. J. Dexter Peach

- 2 -

Support Agreement. The implementation problem, in a nutshell, is that FERC cannot financially support the 120 positions to be transferred at our current funding level. On the other hand, DOE cannot transfer the required budget authority to FERC because of a similar shortage of funds. Thus, implementation of a termination agreement depends on Congressional action which may or may not be forthcoming.

Second, the administrative staff of FERC feels quite confident that it is prepared to implement an orderly transfer of functions if the necessary budget authority is provided. In rather sharp contrast to the FERC staff preparation, the GAO staff who prepared the report admit that they have neither examined nor evaluated FERC staff's planning documents. Accordingly, I am enclosing the following for your review and evaluation: (i) FERC Establishment and Conversion Plan for Common Support Functions (Enclosure A), (ii) FERC Post Operation and Improvement Plan for Common Support Functions (Enclosure B), and (iii) Analysis of FERC Administrative Staffing (Enclosure C).

There is one final matter about which I would like to comment. FERC staff members have met regularly with officials of DOE to define and develop an orderly transition procedure for the contemplated transfer. We had the option of simply terminating the Common Support Agreement and leaving the decision of how termination would be implemented to OMB. In fact, that is still an option. However, we have consistently acted in the belief that an orderly transition could be better facilitated by negotiation and agreement between DOE and FERC. Our actions have been consistently designed to achieve that goal. Accordingly, GAO's contention that cooperative efforts to work out the details of the transition have been halted is categorically false. If we are unable to implement an orderly termination agreement, it will be the fault of neither DOE's nor FERC's respective staffs. Instead, the blame can only be laid at the door of Congress and its paralysis over the budget process.

Yours very truly,



C. M. Butler III
Chairman

Enclosures

GAO note: The enclosures to this letter were not included in this report because of their length.